

BEFORE THE  
BOARD OF ACCOUNTANCY  
DEPARTMENT OF CONSUMER AFFAIRS  
STATE OF CALIFORNIA

In the Matter of the Accusation Against:

EDMOND H. WILLIAMS  
245 Fischer Ave., Apt. #A3  
Costa Mesa, California 92626-4536,

Certificate No. 5145,

Respondent.

Case No. AGS 2002-05

OAH No. L-2003040179

**ORDER CORRECTING MISTAKES  
IN PROPOSED DECISION**

On August 16, 2004, Administrative Law Judge Carolyn Magnuson ("ALJ") of the Office of Administrative Hearings issued a proposed decision in the above-captioned case. Shortly thereafter, on August 20, 2004, Doug Reid, Investigative CPA, of the Board of Accountancy, faxed a memorandum to the Office of Administrative Hearings asking this office to correct several mistakes in ALJ Magnuson's proposed decision. The agency attached a copy of the proposed decision with suggested corrections and copies of exhibits to substantiate the necessity for the corrections. Upon review of the proposed decision and the agency's memorandum, corrections to the proposed decision are included in this order.

GOOD CAUSE appearing, the following order is issued:

1. All but one of the corrections the agency suggests in the proposed decision are hereby made as follows:
  - On page 2, paragraph 8, in the first line, of the Proposed Decision, AICPA Professional Standard 316.81 is changed to AICPA Professional Standard 311.03.
  - On page 5, paragraph 18.a., in the first line, the reference to Business and Professions Code section 5110 is changed to Business and Professions Code section 5100.


- The numbered paragraphs beginning on page 6, paragraph 18, are renumbered due to the fact that there are duplicate paragraphs 18. The second paragraph 18 on page 6 is renumbered as paragraph 19, and the remaining paragraphs are renumbered in sequence.
2. There is no mistake in the third line of paragraph 9 on page 2 of the proposed decision. The citation to AICPA Professional Standard 319.44 is correct.
  3. On the administrative law judge's own motion, the proposed decision is amended by adding the following after the final sentence of paragraph 9. on page 3:

AICPA Professional Standard 319.57 requires an auditor to document the "basis for his or her conclusions about the assessed level of control risk." Respondent's working papers for the 2001 audit did not contain any information relating to the Association's assessed level of control risk.

4. This order and the agency's memorandum (with attachments) are hereby made a part of the record in this case.
5. The agency shall serve respondent with a copy of this Order and the agency's memorandum and attachments at or before the time it serves respondent with the decision in this case.

IT IS SO ORDERED.

Dated: October 15, 2004

  
\_\_\_\_\_  
Carolyn Magnuson,  
Administrative Law Judge  
Office of Administrative Hearings

BEFORE THE  
BOARD OF ACCOUNTANCY  
DEPARTMENT OF CONSUMER AFFAIRS  
STATE OF CALIFORNIA

In the Matter of the Accusation Against	)	Agency No. AC-2003-35
	)	
EDMOND H. WILLIAMS	)	OAH No. L 2004010363
245 Fischer Ave., Apt. #A3	)	
Costa Mesa, California 92626-4536	)	
	)	
Certificate No. 5145	)	
	)	
Respondent.	)	
_____	)	

PROPOSED DECISION

This matter was heard by Carolyn D. Magnuson, Administrative Law Judge of the Office of Administrative Hearings, on July 16, 2004 in Santa Ana, California.

Susan A. Ruff, Deputy Attorney General, represented the Complainant.

Edmond Williams appeared personally and represented himself.

Testamentary and documentary evidence was received; the record was closed; and the matter was submitted.

FACTUAL FINDINGS

1. Carol Sigmann ("Complainant") brought the Accusation solely in her official capacity as the Executive Officer of the California Board of Accountancy ("Board"), Department of Consumer Affairs, State of California.

2. Edmond H. Williams ("Respondent") holds Certified Public Accountant ("CPA") Certificate Number 5145, which was issued to him in August 1953. At all relevant times, the certificate was in full force and effect.

3. In California, in performing their professional functions, CPAs are required to conform to generally accepted accounting/auditing practices as expressed

in the professional standards set by the American Institute of Certified Public Accountants ("AICPA").

4. In 2001, Respondent performed an audit of the financial statements of Yorba Linda Village Homeowners Association ("Association"), for the year ended June 30, 2001. Respondent's work on that audit was deficient in various ways.

5. AICPA Professional Standard 310.05 requires a CPA to "... establish an understanding with the client regarding the services to be performed for each engagement." Respondent had no written agreement with the Association for the work he did with them in 2001 nor did his working papers include any notation of a verbal agreement. Respondent explained that he had done the Association's annual audit for many years, his responsibilities were always the same, and somewhere in his records he did have written agreements with the Association for earlier audits.

6. AICPA Professional Standard 339.05 states that "[t]he quantity, type, and content of working papers vary with the circumstances ... [however] [w]orking papers ordinarily should include documentation showing that [t]he work has been adequately planned and supervised." Respondent's working papers for the 2001 audit did not contain an audit plan. Respondent explained that the audit plan was the same from year to year and that his responsibility was limited to ensuring that the Association's management company was handling the Association's money properly.

7. AICPA Professional Standard 316.37 requires an auditor to assess the risk of a material misstatement due to fraud and to document his assessment in the audit working papers. The Respondent's working papers for the 2001 audit did not contain such an assessment. Respondent believed that, because of the nature of the audit he was performing, there was no risk of fraud but did not include that conclusion in the working papers.

8. AICPA Professional Standard 316.81 requires an auditor to adequately plan an audit by "... developing an overall strategy for the expected conduct and scope of the audit." "The nature, extent, and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business." Respondent's working papers for the 2001 audit did not contain an audit plan. Respondent explained that the audit was so simple, and he had done the Association's audit so often, that a formal audit plan was unnecessary.

9. AICPA Professional Standard 319.02 requires an auditor to acquire a sufficient understanding of the internal financial controls of the entity being audited to be able to plan the audit; and AICPA Professional Standard 319.44 requires an auditor to document the basis for his conclusions regarding internal controls in the audit working papers. Respondent's working papers for the 2001 audit did not contain information about the Association's internal controls. Respondent's position

was that his audit was the sum and substance of the internal controls employed by the Association to assure fiscal probity and that it was unnecessary to document that fact in the working papers.

10. The Respondent stipulated to the accuracy of the balance of the allegations, which are set forth in paragraph 9 of the Accusation, subparagraphs g through p, inclusive, as follows:

- g. Respondent failed to document in his working papers that he conducted substantive tests to confirm the existence and accuracy of assessments receivable.
- h. Respondent failed to document in his working papers that he had obtained written representations from management.
- i. Respondent failed to document in his working papers that proper inquiries were made to the client's legal counsel concerning litigation, claims and assessments.
- j. Respondent's working papers failed to properly document audit evidence obtained, the auditing procedures applied, and the testing performed.
- k. The financial statements and notes to the financial statements failed to disclose required information about common property.
- l. The financial statements and notes to the financial statements failed to adequately present information about the client's funding for future major repairs and replacements.
- m. The financial statements and notes to the financial statements lacked the required supplementary information regarding current and future repairs and replacement of existing components.
- n. The financial statements and notes to the financial statements failed to include disclosures concerning the use of basic accounting estimates.
- o. The financial statements and notes to the financial statements failed to disclose the client's significant accounting policies.
- p. The financial statements and notes to the financial statements failed to disclose the client's policy for determining which items are treated as cash equivalents in the statement of cash flows.

The Respondent also stipulated that there are written professional standards that apply to audit reports.

11. As a consequence of Respondent's failing to observe various applicable auditing standards in conducting the audit of the Association's financial records in 2001, the audit report issued by Respondent, ipso facto, failed to conform to professional standards. The Board's expert testified that Respondent's audit report did not contain elements and language required by AICPA and generally accepted auditing/accounting practice. Basically, the report lacks the same type of information missing from the working papers.

12. The expert determined that most of the Respondent's deviations from professional standards were simple departures. However, his failure to determine what internal controls existed; his failure to document written representations from the management; his failure to adequately present information about the client's funding for future major repairs and replacements; his failure to obtain/document supplementary information regarding current and future repairs and replacement of existing components; and his failure to properly document audit evidence obtained, the auditing procedures applied, and the testing performed were all extreme departures from the standards, as was his preparing and issuing the non-conforming audit report. Taken as a whole, the expert found that Respondent's performance on the 2001 Association audit constituted an extreme departure from generally accepted auditing/accounting practices and the standards set by AICPA.

13. The Respondent's position vis-à-vis the various allegations of using substandard auditing procedures in conducting the audit for the Association in 2001 was that it was a tempest in a teapot. Respondent pointed out that, under AICPA standards, the scope and content of audit working papers varies depending upon the complexity of the audit. The Respondent plainly believes that the audit for the Association in 2001 was so simple, and that he had performed similar services for the Association so often, that working papers were essentially unnecessary for the audit.

14. In fact, Respondent made it very apparent that he considers the professional standards promulgated by AICPA to be little more than pettifogging hindrances to serving his clients' best interests and that he has no intention of observing those standards if he feels that such compliance is unacceptable to him or unnecessary.

15. Respondent has practiced accounting for many years in California and has no prior history of discipline.<sup>1</sup> Respondent obviously sincerely believes that his professional conduct has adhered to all reasonable professional and ethical

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<sup>1</sup> There was evidence that, at some point in the not too distant past, Respondent was strongly counseled by the Board to take certain continuing education classes, which he did; but there was no evidence of formal discipline.

standards and that he ought not to be sanctioned because the AICPA standards he failed to observe do not, or at least should not, apply to a cash audit such as Respondent did for the Association.

16. Respondent stated that he has entirely stopped doing auditing and has no intention of ever resuming that aspect of public accounting.

17. Complainant has requested reimbursement of the costs of investigation and enforcement incurred in this case. In support of that request, Complainant has submitted two cost certifications showing investigative costs of \$5,064.75 representing 66.25 hours of services by the Board's investigative CPA and Attorney General services of \$5,173 representing 41 hours of attorney time.

### LEGAL DETERMINATIONS

18. Complainant alleges that Respondent violated the following provisions in auditing the Association's financial records in 2001:

- a. Business and Professions Code section 5110, which provides, in pertinent part.

After notice and hearing the board may revoke, suspend, or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct that includes, but is not limited to, one or any combination of the following causes: [¶] . . . [¶]

(c) Dishonesty, fraud, gross negligence, or repeated negligent acts committed in the same or different engagements, for the same or different clients, or any combination of engagements or clients, each resulting in a violation of applicable professional standards that indicate a lack of competency in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052. [¶] . . . [¶]

(g) Willful violation of this chapter or any rule or regulation promulgated by the board under the authority granted under this chapter.

- b. Business and Professions Code section 5062, which states: "A licensee shall issue a report which conforms to professional standards upon completion of a compilation, review or audit of financial statements."

- c. Title 16, California Code of Regulations, section 58, which provides: "Licensees engaged in the practice of public accountancy shall comply with all applicable professional standards, including but not limited to generally accepted accounting principles and generally accepted auditing standards."

18. The evidence established that cause exists under the provisions of Business and Professions Code section 5100, subdivision c, to discipline Respondent's license for acts of gross negligence, as set forth in paragraphs 9, 10, 11, and 12.

19. The evidence established that cause exists under the provisions of Business and Professions Code sections 5100, subdivision g, and 5062 to discipline Respondent's license for failing to issue an audit report that conformed to professional standards, as set forth in paragraphs 11 and 12.

20. The evidence established that cause exists under the provisions of Business and Professions Code section 5100, subdivision g, and California Code of Regulations, title 16, section 58 to discipline Respondent's license for failing to comply with professional standards in conducting an audit, as set forth in paragraphs 5, 6, 7, 8, 9, 10, 11, and 12.

21. The evidence established that cause exists under the provisions of Business and Professions Code section 5100, subdivision g, to discipline Respondent's license for unprofessional conduct, as set forth in paragraphs 5, 6, 7, 8, 9, 10, 11, and 12.

22. The evidence established that cause exists under Business and Professions Code section 125.3 to reimburse Complainant for the reasonable costs of investigation and enforcement in the amount of \$10,237.75

### Discussion

23. Respondent is correct when he states that the professions' standards for conducting an audit are flexible, depending upon the type and complexity of the audit being done. However, sufficient records must be kept in all audits so that the scope of the work undertaken is clear, the method(s) to be employed in the audit to fulfill that obligation are established, the types of inquiries done to insure the accuracy of the information on which the audit relies are apparent, and the factual basis for the conclusions reached can be determined. Neither Respondent's working papers nor his audit report provide this type of information.

24. Respondent clearly thought, and still thinks, that his approach to the Association's audit was appropriate, notwithstanding the fact he acknowledges that it violated multiple professional standards and code sections that govern public accounting in California. Further, there is also no doubt, based on his testimony and demeanor at trial, that Respondent has no intention of conforming his professional conduct to standards he perceives as being unnecessary or even counterproductive.

25. Normally a single, problematic audit, where there is no dishonesty involved on the part of the licensee – particularly where the licensee has practiced



discipline free for more than fifty years – would not so severely threaten the public interest that an outright revocation was appropriate.

26. However, where a licensee manifests a clear intention to continue to substitute his own determination of what constitutes good accounting practices for those set by the Board and followed by other licensees in California and other CPAs throughout the country, particularly when the licensee appears to be completely oblivious of the purposes for which such requirements are imposed, that CPA poses a serious threat to the public.

27. There is no doubt that Respondent is well intentioned, but good intentions alone are insufficient assurance that Respondent's professional performance will meet professional standards. Unfortunately, the only sure way to protect the public in this case is to revoke Respondent's license.

#### ORDER

Certified Public Accountant Certificate Number 5145, previously issued to Edmond H. Williams, is revoked.

Dated: August 16, 2004

A handwritten signature in black ink, reading "Carolyn D. Magnuson". The signature is written in a cursive, flowing style.

CAROLYN D. MAGNUSON  
Administrative Law Judge  
Office of Administrative Hearings

BEFORE THE  
BOARD OF ACCOUNTANCY  
STATE OF CALIFORNIA

In the Matter of the Accusation Against:

EDMOND H. WILLIAMS  
245 Fischer Avenue, Apt. #A3  
Costa Mesa, California 92626-4536

Certificate No. 5145,

Respondent.

Agency No.: AC-2003-35

OAH No.: L2004010363

DECISION

The attached Proposed Decision of the Administrative Law Judge is hereby adopted by the BOARD OF ACCOUNTANCY of California as its Decision in the above-entitled matter.

This Decision shall become effective December 22, 2004.

IT IS SO ORDERED November 22, 2004.

BOARD OF ACCOUNTANCY  
STATE OF CALIFORNIA

By:

  
President

rfm

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of the State of California  
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8

9 **BEFORE THE**  
**CALIFORNIA BOARD OF ACCOUNTANCY**  
10 **DEPARTMENT OF CONSUMER AFFAIRS**  
11 **STATE OF CALIFORNIA**

12 In the Matter of the Accusation Against:

Case No. AC-2003-35

13 EDMOND H. WILLIAMS  
245 Fischer Ave., Apt. #A3  
14 Costa Mesa, CA 92626-4536

**A C C U S A T I O N**

15 Certificate No. 5145

16 Respondent.  
17

18 Complainant alleges:

19 **PARTIES**

20 1. Carol Sigmann ("Complainant") brings this Accusation solely in her official  
21 capacity as the Executive Officer of the California Board of Accountancy, Department of  
22 Consumer Affairs.

23 2. On or about August 6, 1953, the California Board of Accountancy issued Certified  
24 Public Accountant Certificate Number 5145 to Edmond H. Williams ("Respondent"). The  
25 Certificate was in full force and effect at all times relevant to the charges brought herein and will  
26 expire on December 31, 2003, unless renewed.

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JURISDICTION

3. This Accusation is brought before the California Board of Accountancy ("Board"), Department of Consumer Affairs, under the authority of the following laws. All section references are to the Business and Professions Code ("Code") unless otherwise indicated.

4. Section 5100 of the Code provides, in pertinent part:

"After notice and hearing the board may revoke, suspend, or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct that includes, but is not limited to, one or any combination of the following causes:

. . .

"(c) Dishonesty, fraud, gross negligence, or repeated negligent acts committed in the same or different engagements, for the same or different clients, or any combination of engagements or clients, each resulting in a violation of applicable professional standards that indicate a lack of competency in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052.

. . .

"(g) Willful violation of this chapter or any rule or regulation promulgated by the board under the authority granted under this chapter."

5. Section 5107 of the Code states, in pertinent part:

"(a) The executive officer of the board may request the administrative law judge, as part of the proposed decision in a disciplinary proceeding, to direct any holder of a permit or certificate found guilty of unprofessional conduct in violation of subdivisions (b), (c), (i) [now subdivision (j)], or (j) [now subdivision (k)] of Section 5100, or involving a felony conviction in violation of subdivision (a) of Section 5100, or involving fiscal dishonesty in violation of subdivision (h) [now subdivision (i)] of Section 5100, to pay to the board all reasonable costs of investigation and prosecution of the case, including, but not limited to, attorneys' fees. The board shall not recover costs incurred at the administrative hearing."

1           6.       Section 5062 states: "A licensee shall issue a report which conforms to  
2 professional standards upon completion of a compilation, review or audit of financial  
3 statements."

4           7.       California Code of Regulations, title 16, section 58 provides that:

5                "Licensees engaged in the practice of public accountancy shall comply with all  
6 applicable professional standards, including but not limited to generally accepted accounting  
7 principles and generally accepted auditing standards."

8                               FIRST CAUSE FOR DISCIPLINE

9                               (Gross Negligence)

10          8.       Respondent is subject to disciplinary action under Code section 5100(c) in that  
11 Respondent committed gross negligence in the practice of accounting, in the following respects:

12          9.       In or about 2001, Respondent performed an audit of the financial statements of  
13 Yorba Linda Village Homeowners Association, for the year ended June 30, 2001. Respondent's  
14 audit and his documentation of that audit were deficient in the following respects:

15                           WORKING PAPERS

16               a.       Respondent's working papers for the audit contained no documentation  
17 that an understanding with the client was reached regarding the services to be performed.

18               b.       Respondent failed to document in his working papers that the audit was  
19 properly planned.

20               c.       Respondent failed to document in his working papers the assessment of  
21 the risk of material misstatement in the financial statements due to fraud.

22               d.       Respondent failed to document in his working papers a written audit  
23 program, setting forth in reasonable detail the audit procedures necessary to accomplish  
24 the objectives of the audit.

25               e.       Respondent failed to document in his working papers his understanding of  
26 the entity's internal control.

27               f.       Respondent failed to document in his working papers the basis for his  
28 conclusion about the assessed level of control risk.

1           g.       Respondent failed to document in his working papers that he conducted  
2 substantive tests to confirm the existence and accuracy of assessments receivable.

3           h.       Respondent failed to document in his working papers that he had obtained  
4 written representations from management.

5           i.       Respondent failed to document in his working papers that proper inquiries  
6 were made to the client's legal counsel concerning litigation, claims and assessments.

7           j.       Respondent's working papers failed to properly document audit evidence  
8 obtained, the auditing procedures applied, and the testing performed.

9 FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS

10           k.       The financial statements and notes to the financial statements failed to  
11 disclose required information about common property.

12           l.       The financial statements and notes to the financial statements failed to  
13 adequately present information about the client's funding for future major repairs and  
14 replacements.

15           m.       The financial statements and notes to the financial statements lacked the  
16 required supplementary information regarding current and future repairs and replacement  
17 of existing components.

18           n.       The financial statements and notes to the financial statements failed to  
19 include disclosures concerning the use of basic accounting estimates.

20           o.       The financial statements and notes to the financial statements failed to  
21 disclose the client's significant accounting policies.

22           p.       The financial statements and notes to the financial statements failed to  
23 disclose the client's policy for determining which items are treated as cash equivalents in  
24 the statement of cash flows.

25 AUDITOR'S REPORT

26           q.       The auditor's report prepared by Respondent did not contain the basic  
27 elements and required language of an auditor's report on financial statements.

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1           r.       The auditor's report prepared by Respondent should have been, but was  
2 not, modified because of the failure of the financial statements and notes to disclose  
3 information required by generally accepted accounting principles.

4           s.       Respondent failed to exercise due professional care in conducting the audit  
5 by failing to 1) properly plan the audit, 2) document his understanding of the elements of  
6 the internal control structure, and 3) obtain sufficient, competent evidential matter.

7                                   SECOND CAUSE FOR DISCIPLINE

8                                   (Report Not Conforming to Standards)

9           10.     Respondent is subject to disciplinary action pursuant to Code sections 5100(g)  
10 and 5062, as more particularly alleged in paragraph 9 above, in that his auditor's report issued to  
11 Yorba Linda Village Homeowners Association for the year ended June 30, 2001, did not conform  
12 to professional standards. It did not include the required language of an auditor's report and  
13 failed to report on departures resulting from omission of required disclosures.

14                                   THIRD CAUSE FOR DISCIPLINE

15                                   (Failure to Comply with Standards)

16           11.     Respondent is subject to disciplinary action pursuant to Code section 5100(g) and  
17 Title 16, California Code of Regulations, section 58, as more particularly alleged in paragraph 9  
18 above, in that Respondent, in performing the audit of Yorba Linda Village Homeowners  
19 Association for the year ended June 30, 2001, did not comply with applicable professional  
20 standards.

21                                   FOURTH CAUSE FOR DISCIPLINE

22                                   (Unprofessional Conduct)

23           12.     Respondent is subject to disciplinary action pursuant to Code section 5100, in that  
24 his conduct with respect to his audit of the financial statements of Yorba Linda Village  
25 Homeowners Association for the year ended June 30, 2001, constituted unprofessional conduct  
26 as more particularly alleged in paragraph 9 above.

27     ///

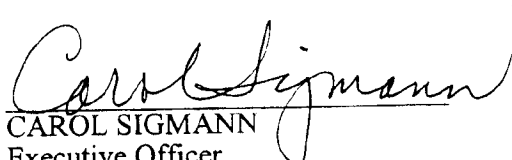
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1 PRAYER

2 WHEREFORE, Complainant requests that a hearing be held on the matters herein  
3 alleged, and that following the hearing, the California Board of Accountancy issue a decision:

- 4 1. Revoking, suspending or otherwise imposing discipline upon Certified Public  
5 Accountant Certificate Number 5145, issued to Edmond H. Williams;  
6 2. Awarding the Board costs as provided by statute; and;  
7 3. Taking such other and further action as the Board deems proper.

8  
9 DATED: September 24, 2003

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12 CAROL SIGMANN  
13 Executive Officer  
14 California Board of Accountancy  
15 Department of Consumer Affairs  
16 State of California  
17 Complainant

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